Supporting Statement for
Financial Statements filed by Bank Holding Companies
(FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9CS and FR Y-9ES; OMB No. 7100-0128)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to revise, without extension, the following mandatory reports, for implementation in 2006:

(1) the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128),
(2) the Parent Company Only Financial Statements for Large Bank Holding Companies (FR Y-9LP; OMB No. 7100-0128), and
(3) the Parent Company Only Financial Statements for Small Bank Holding Companies (FR Y-9SP; OMB No. 7100-0128).

This family of reports also contains the following mandatory reports, which are not being revised:

(1) the Financial Statements for Employee Stock Ownership Plan Bank Holding Companies (FR Y-9ES; OMB No. 7100-0128), and
(2) the Supplement to the Consolidated Financial Statements for Bank Holding Companies (FR Y-9CS; OMB No. 7100-0128).

Pursuant to the Bank Holding Company Act of 1956, as amended, the Federal Reserve requires bank holding companies (BHCs) to provide standardized financial statements to fulfill the Federal Reserve's statutory obligation to supervise these organizations. BHCs file the FR Y-9C and FR Y-9LP quarterly, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on a schedule that is determined when the supplement is used.

The Federal Reserve proposes to modify information collected on the FR Y-9C, FR Y-9LP and FR Y-9SP to (1) increase the asset-size threshold for filing the FR Y-9C and FR Y-9LP from $150 million to $500 million; (2) increase the asset-size threshold for filing the FR Y-9SP from under $150 million to under $500 million; (3) revise other current filing criteria affecting the reporting of the FR Y-9C, FR Y-9LP and FR Y-9SP; and (4) revise the text of the attestation requirement on the cover page of each report and require signatures specifically from the chief executive officer and chief financial officer. The Federal Reserve proposes the following revisions to the FR Y-9C: (1) add item on loans for purchasing and carrying securities; (2) add item for additional regulatory capital detail; (3) add items for further detail on construction, land development, and land loans; (4) add items for further detail on loans secured by nonfarm nonresidential properties; (5) redefine breakouts for lease financing receivables; (6) add items for further information on credit derivatives; (7) add items for further detail on mortgage banking activities; (8) reclassify reporting of annuity sales revenue; (9) add items for further detail on investment banking, advisory, brokerage, and underwriting income; (10) add items to identify certain secured borrowings; (11) remove threshold for reporting of life insurance assets; (12) revise scope of securitizations to be included in Schedule HC-S; (13) remove the FR Y-9C filing requirement for lower-tier BHCs with total assets of $1 billion or more; (14) delete or impose a reporting threshold on a number of items; and (15) make revisions to the reporting instructions. Finally, Board staff proposes to revise the FR Y-9SP by collecting two new items on Schedule

SC-M, Memoranda, to identify total off-balance-sheet activities conducted either directly or through a nonbank subsidiary and to identify total debt and equity securities (other than trust preferred securities) outstanding that are registered with the Securities and Exchange Commission (SEC).

Copies of the proposed reporting forms, marked to show the revisions, are provided in the attachment. The total current annual burden for the FR Y-9 family of reports is estimated to be 405,373 hours. The overall reporting burden is estimated to decrease by 221,832 hours with the proposed revisions.

Background and Justification

The FR Y-9C, FR Y-9LP, and FR Y-9SP are standardized financial statements for the consolidated BHC and its parent. The FR Y-9ES is a financial statement for BHCs that are Employee Stock Ownership Plans (ESOPs). The Federal Reserve also has the authority to use the FR Y-9CS, a free form supplement, to collect any additional information deemed to be critical and needed in an expedited manner. The FR Y-9 family of reports historically has been, and continues to be, the primary source of financial information on BHCs between on-site inspections. Financial information from these reports is used to detect emerging financial problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and acquisitions, and to analyze a BHC's overall financial condition to ensure safe and sound operations.

Description of the Information Collection

FR Y-9C

The FR Y-9C consists of standardized financial statements similar to the Consolidated Reports of Condition and Income (FFIEC 031 & 041; OMB No. 7100-0036) (Call Report) filed by commercial banks. The FR Y-9C collects consolidated data from the BHC. The FR Y-9C is filed by top-tier BHCs with total consolidated assets of $150 million or more[1] and lower-tier BHCs that have total consolidated assets of $1 billion or more. In addition, multibank holding companies with total consolidated assets of less than $150 million with debt outstanding to the general public or engaged in certain nonbank activities must file the FR Y-9C.

<u>Proposed Revisions Not Related to Call Report Revisions</u>

The Federal Reserve proposes to make the following revisions to the FR Y-9C effective as of March 31, 2006. The following proposed revisions are not related to the revisions proposed to the Call Report.

Filing Criteria: Asset-Size Threshold

The Federal Reserve proposes to increase the asset-size threshold of the FR Y-9C from $150 million to $500 million. BHCs with consolidated assets of less than $500 million generally would file the parent-only FR Y-9SP. The Federal Reserve further proposes to revise the other

[1] Under certain circumstances defined in the General Instructions, BHCs under $150 million may be required to file the FR Y-9C.

criteria used in determining whether a BHC is subject to consolidated FR Y-9C reporting requirements. The revised criteria would more accurately reflect current supervisory views of factors that would warrant consolidated financial reporting and compliance with the capital guidelines. However, the Federal Reserve would retain the current policy that allows a Reserve Bank to require a BHC to file consolidated financial reports if the Reserve Bank determines that such action is warranted for supervisory reasons.

The current reporting requirements that govern the frequency and the level of detail of financial reports filed by BHCs have been in place since 1986 and are principally driven by the asset size of the BHC. Generally, BHCs with consolidated assets of less than $150 million submit summary parent company financial data semi-annually (FR Y-9SP). BHCs with consolidated assets of $150 million or more submit detailed consolidated (FR Y-9C) and parent company (FR Y-9LP) financial data quarterly. When these reporting thresholds were established, $150 million in consolidated assets represented a reasonable threshold for identifying those BHCs whose operations warranted more extensive consolidated reporting for monitoring risks to safety and soundness.

However, over the last two decades, inflation, industry consolidation, and normal asset growth of BHCs have caused the $150 million threshold to lose much of its relevance. While the number of BHCs with less than $500 million in consolidated assets has increased over this time frame, these BHCs hold a smaller percentage of total assets for all BHCs filing the FR Y-9C. The number of non-complex FR Y-9C respondents with consolidated assets of less than $500 million has increased by about 560, while their share of total assets of all FR Y-9C respondents has decreased from about 7 percent to about 4 percent. In addition, raising the threshold to $500 million goes well beyond the level (approximately $255 million) necessary to adjust the current threshold for inflation. The Federal Reserve believes that raising the threshold to $500 million achieves an appropriate balance between the goals of reducing regulatory burden and ensuring access to supervisory data necessary for the safety and soundness of BHCs.

One consideration in proposing to increase the threshold for filing the FR Y-9C is that the loss of data could potentially be an issue for BHC management. The Federal Reserve currently produces Bank Holding Company Performance Reports (BHCPRs) that compare a BHC's financial data to those of its peers. BHCs may use the BHCPRs to evaluate and monitor their financial performance. However, most of the BHCs that would be affected are shell, one-bank holding companies; therefore, the Uniform Bank Performance Report[2] should provide most of the information. Nevertheless, the Federal Reserve seeks public comment on any consolidated information BHC management may want to continue reporting and see from BHCs with between $150 million and $500 million in total assets for peer review or other internal management purposes.

Other Filing Criteria

The Federal Reserve's current risk-based and leverage-capital standards do not apply to BHCs with consolidated assets of less than $150 million if the parent holding company is not engaged in nonbank activity involving significant leverage and the parent holding company does

[2] The Uniform Bank Performance Report is similar to the BHCPR and compares bank financial data to those of its peers.

not have a significant amount of debt held by the general public. If either of these additional criteria is met, the BHC would be deemed subject to the Federal Reserve's capital guidelines. The FR Y-9C reporting instructions use slightly different criteria and currently exempt BHCs with one bank subsidiary and less than $150 million in consolidated assets from filing consolidated statements and risk-based capital schedules even if they have public debt or engage in nonbanking activities involving significant leverage. The Federal Reserve separately has proposed to revise and expand the other criteria under which a BHC would be required to comply with the Federal Reserve's capital guidelines[3]. The Federal Reserve believes that for BHCs under $500 million in total consolidated assets, other than those BHCs that meet the additional criteria noted below, bank-level compliance with risk-based and leverage capital requirements would be sufficient for supervisory purposes. The Federal Reserve proposes to modify the FR Y-9C reporting criteria to conform directly with criteria proposed for applicability of these guidelines.

Specifically, the Federal Reserve proposes to require BHCs with consolidated assets of less than $500 million to comply with the Federal Reserve's capital guidelines and to continue to comply with the FR Y-9C and FR Y-9LP reporting requirements, if the holding company (1) is engaged in significant nonbanking activities either directly or through a nonbank subsidiary; (2) conducts significant off-balance-sheet activities, including securitizations or managing or administering assets for third parties, either directly or through a nonbank subsidiary; or (3) has a material amount of debt or equity securities (other than trust preferred securities) outstanding that are registered with the SEC.[4] While the incidence of BHCs with consolidated assets of less than $500 million meeting any of these criteria is expected to be infrequent, any such holding companies would be notified and given a reasonable timetable for meeting the consolidated capital and reporting requirements.

In addition, the Federal Reserve separately has proposed to amend its capital guidelines to make explicit the Federal Reserve's authority to subject a small BHC to the guidelines if the Federal Reserve determines that such action is warranted for supervisory purposes (comparable to existing to current instructions for FR Y-9C reporting requirements) . Furthermore, the proposed amendments to the guidelines would explicitly provide that a small BHC may voluntarily comply with the guidelines. The Federal Reserve proposes that a BHC electing to comply with the guidelines would be required to file the consolidated FR Y-9C. Any BHC that volunteers to file the FR Y-9C would be required to file a complete report and generally would not be permitted to revert back to filing the FR Y-9SP report in any subsequent periods.

Lower-tier Reporting Requirements – The Federal Reserve also proposes to eliminate the reporting exception requiring top-tier BHCs to submit an FR Y-9C for each lower-tier BHC with total consolidated assets of $1 billion or more. The Federal Reserve has determined that information from such lower-tier institutions is no longer needed for supervisory or safety and soundness reasons.

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[3] Refer to Federal Reserve Board press release of September 7, 2005.
http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050907/default.htm

[4] As noted above, these proposed criteria would conform directly with proposed criteria for applicability of capital adequacy guidelines. Responsibility for determination whether such activities are significant or material for any given BHC would rest with the supervisory function at each Federal Reserve district bank. If a Reserve Bank finds that a BHC meet any of these criteria, the Reserve Bank would be responsible for notifying the BHC and establishing the time frame for meeting the capital adequacy guidelines and FR Y-9C reporting requirements.

Schedule HC-C—Loans and Lease Financing Receivables

The Federal Reserve proposes to revise Schedule HC-C, item 9, All other loans, to break out a new item 9.a, Loans for purchasing or carrying securities (secured and unsecured). Current item 9 would be renumbered as 9.b. This item would be defined the same as a comparable item currently reported by banks on the Call Report and is predominantly composed of margin loans with broker-dealers. Margin loans have been growing at the BHC level, particularly due to significant growth in lending to hedge funds. The Federal Reserve proposes collecting this item in order to measure and monitor BHCs involvement in this higher risk activity.

Schedule HC-M—Memoranda

The Federal Reserve proposes to delete Schedule HC-M, item 7, Total assets of unconsolidated subsidiaries and associated companies. This item is no longer needed for supervisory and safety and soundness purposes.

Schedule HC-R—Regulatory Capital

The Federal Reserve proposes to add a new memorandum item 6, Market risk equivalent assets attributable to specific risk (included in Schedule HC-R, item 58). The Federal Reserve's risk-based capital standards require all BHCs with significant market risk to measure their market risk exposure and hold sufficient capital to mitigate this exposure. In general, a BHC is subject to the market risk capital guidelines if its consolidated trading activity, defined as the sum of trading assets and liabilities reported in its FR Y-9C for the previous quarter, equals: (1) 10 percent or more of the BHC's total assets as reported in its FR Y-9C for the previous quarter or (2) $1 billion or more.

A BHC that is subject to the market risk guidelines must hold capital to support its exposure to general market risk and specific risk. General market risk means changes in the market value of covered positions resulting from broad market movements, such as changes in the general level of interest rates, equity prices, foreign exchange rates, or commodity prices. Covered positions include all positions in a BHCs trading account and foreign exchange and commodity positions, whether or not in the trading account. Specific risk means changes in the market value of specific positions due to factors other than broad market movements and includes event and default risk.

The specific risk exposure of specific positions is significantly higher than the general market risk of covered positions. The Federal Reserve proposes to break out market risk equivalent assets[5] attributable to specific risk to better measure and monitor the BHCs market risk position and to better compare such risk positions taken across BHCs subject to the market risk guidelines.

Instructions

In addition to modifying instructions to incorporate the proposed reporting changes, the Federal Reserve proposes to revise the following reporting instructions.

[5] A BHC's market risk equivalent assets is equal to its measure for market risk multiplied by 12.5 (the reciprocal of the minimum 8.0 percent capital ratio). For further information, see the Federal Reserve's risk-based capital standards.

General Instructions - The Federal Reserve proposes to modify the reporting instructions under "Who Must Report," section C, Shifts in Reporting Status: A top-tier BHC that reaches $500 million or more in total consolidated assets as of June 30 of the preceding year should begin reporting on the FR Y-9C in March of the current year. If a BHC reaches $500 million or more in total consolidated assets due to a business combination, then the BHC would be instructed to begin reporting the FR Y-9C beginning with the first quarterly report date following the effective date of the business combination. In general, once a BHC reaches or exceeds $500 million in total assets and begins filing the FR Y-9C, it should file a complete FR Y-9C going forward. If a BHC's total assets should subsequently fall to less than $500 million for four consecutive quarters, then the BHC may revert to filing the FR Y-9SP.

Schedule HC-B—Securities – The Federal Reserve proposes to modify the reporting instructions for Schedule HC-B, memorandum item 2, Remaining maturity of debt securities, to instruct BHCs to report the remaining maturity of holdings of floating rate debt securities according to the amount of time remaining until the next repricing date. This instruction would be consistent with the current reporting treatment for a comparable item in the Call Report. The instructions for this item would also be expanded to define the terms fixed interest rate, floating rate, and next repricing date to make them consistent with the Call Report instructions.

Schedule HC-K—Quarterly Averages – The Federal Reserve proposes to modify Schedule HC-K, item 11, Equity capital, to no longer exclude net unrealized losses on marketable equity securities, other net unrealized gains and losses on available-for-sale securities, and accumulated net gains (losses) on cash flow hedges when calculating average equity capital. This revision would ensure a more accurate calculation of return on equity.

<u>Proposed Revisions Related to Call Report Revisions</u>

The Federal Reserve proposes to make the following revisions to the FR Y-9C to parallel proposed changes to the Call Report.

Attestation

The Federal Reserve proposes to revise the current attestation by one director of the BHC that he or she has reviewed the data filed and has transmitted a copy to the Board of Directors for their information. Given the importance placed upon the quality of the information reported, the Federal Reserve believes that the chief executive officer (or person performing similar functions) and chief financial officer (or person performing similar functions) are the most appropriate officers within a BHC to sign a declaration concerning the preparation of the data. The Federal Reserve recognizes that at some BHCs the same individual may perform the functions of both chief executive officer and chief financial officer. The note on the cover page would be replaced with the following text:

> "We, the undersigned officers of this bank holding company, are responsible for establishing and maintaining adequate internal controls over financial reporting,controls over regulatory reports. We attest that the Consolidated Financial Statements for Bank Holding Companies (including the supporting schedules) for this report date have been

prepared in accordance with the instructions issued by the Federal Reserve and to the best of our knowledge and belief are true and correct."

This statement would be followed with the signatures and printed names of the chief executive officer (or person performing similar functions) and chief financial officer (or person performing similar functions) of the BHC and the date of these signatures.

Holdings of Asset-Backed Securities

Schedule HC-B, Securities collects a six-way breakdown of BHCs' holdings of asset-backed securities (not held for trading purposes) in items 5.a through 5.f.[6] Because BHCs with domestic offices only and less than $1 billion in total assets hold only a nominal percentage of the industry's investments in asset-backed securities, the Federal Reserve has determined that continuing to request a breakdown by category of these institutions' limited holdings of asset-backed securities is no longer warranted. Instead, these BHCs would report only their total holdings of asset-backed securities in Schedule HC-B. However, all BHCs with foreign offices and other BHCs with $1 billion or more in total assets would continue to report the existing breakdown of their asset-backed securities in this schedule.

Impact of Derivatives on Income

BHCs report the effect that their use of derivatives outside the trading account has had on their year-to-date interest income, interest expense, and net noninterest income in income statement (Schedule HI) memoranda items 10.a through 10.c. The amounts reported in these memoranda items are aggregates of all nontrading derivative positions and combine derivatives that may have substantially different underlying risk exposures (e.g., interest rate risk, foreign exchange risk, and credit risk). In recognition of proposed new data on credit derivatives (below), the Federal Reserve proposes to delete the three income statement memoranda items since they are of lesser utility.

Bankers Acceptances

The FR Y-9C balance sheet (Schedule HC) has long required BHCs to separately disclose the amount of their Customers' liability on acceptances outstanding (item 9) and their BHC's Liability on acceptances executed and outstanding (item 18) and provide an indication of whether the BHC has reduced the liabilities on acceptances executed and outstanding by the amount of any participations in bankers acceptances (Schedule HC-M, item 10). In addition, BHCs also report the amount of Participations in acceptances conveyed to others by the reporting bank holding company (Schedule HC-L, item 5). Over time, the volume of acceptance assets and liabilities as a percentage of industry assets and liabilities has declined substantially to a nominal amount, with only a small number of BHCs reporting these items. The Federal Reserve proposes to delete these four items and instruct BHCs to include any acceptance assets and liabilities in Other assets and Other liabilities, respectively, on the balance sheet and to include in the "Other" category of Schedule HC-F, Other Assets, and Schedule HC-G, Other Liabilities.

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[6] In Schedule HC-B, the asset-backed securities reported in items 5.a through 5.f exclude mortgage-backed securities, which are reported separately in items 4.a.(1) through 4.b.(3) of the schedule.

Construction, Land Development, and Other Land Loans

Construction, land development, and other land (CLD&OL) lending is a highly specialized set of activities with inherent risks that must be managed and controlled to ensure that these activities remain profitable. Management's ability to identify, measure, monitor, and control the risks from these types of loans through effective underwriting policies, systems, and internal controls is crucial to a sound lending program. In areas of the country that experience high levels of construction activity and an extremely competitive lending environment, these factors often lead to thinner profit margins on CLD&OL loans and looser underwriting standards. Moreover, the risk profiles, including loss rates, of CLD&OL loans vary across loan types because of differences in such factors as underwriting and repayment source. The Federal Reserve's real estate lending standards recognize these differences in risk, for example, by setting higher supervisory loan-to-value limits for 1-4 family residential construction loans than for other construction loans.

The Federal Reserve has seen substantial growth in the volume of CLD&OL loans in recent years. To improve the Federal Reserve's ability to monitor the construction lending activities of individual BHCs and the industry as a whole, the Federal Reserve proposes to obtain separate data on 1-4 family residential CLD&OL loans and all other CLD&OL loans. Such information would also enable the Federal Reserve to identify institutions that significantly shift between 1-4 family residential construction lending and other construction lending and to identify when institutions that had been solely 1-4 family residential construction lenders move into other types of construction lending.

Specifically, the Federal Reserve proposes to split the existing item for Construction, land development, and other land loans in the loan schedule (Schedule HC-C, item 1.a), the past due and nonaccrual schedule (Schedule HC-N, item 1.a), and the charge-offs and recoveries schedule (Schedule HI-B, item 1.a) into separate items for 1-4 family residential construction, land development, and other land loans and Other construction, land development, and other land loans. In addition, the Federal Reserve proposes to similarly split the item for Commitments to fund commercial real estate, construction, and land development loans secured by real estate in the off-balance-sheet items schedule (Schedule HC-L, item 1.c.(1)) into two items.

Loans Secured by Nonfarm Nonresidential Properties

Loans secured by nonfarm nonresidential properties (commercial real estate loans) include loans made to the occupants of such properties and loans to non-occupant investors. These two types of commercial real estate loans present different risk profiles. Loans secured by owner-occupied properties perform more like a commercial and industrial loan because the success of the occupant's business is the primary source of repayment. To ensure repayment of loans to non-occupant investors, the property must generate sufficient cash flow from the parties who are the occupants.

Because of the significant and growing level of BHC involvement in commercial real estate lending and the different risk characteristics of owner-occupied and other commercial properties, separate reporting of these two categories of commercial real estate would enhance the Federal Reserve's monitoring and risk-scoping capabilities. The Federal Reserve proposes to split the existing item for loans Secured by nonfarm nonresidential properties in the loan schedule (Schedule HC-C, item 1.e), the past due and nonaccrual schedule (Schedule HC-N, item 1.e), and the charge-offs and recoveries schedule (Schedule HI-B, part I, item 1.e) into separate items for owner-occupied nonfarm nonresidential properties and other nonfarm nonresidential properties.

When a commercial property that is partially occupied by the owner and partially occupied (or available to be occupied) by other parties, the property would be considered owner-occupied when the owner occupies more than half of the property's usable space. Properties such as hotels and motels would not be considered owner-occupied. The Federal Reserve will request comment on the reporting of partially owner-occupied properties and on any other definitional issues that may arise when determining whether to report a loan as secured by owner-occupied property.

Retail and Commercial Leases

BHCs currently report a breakdown of their lease financing receivables between those from U.S. and non-U.S. addressees in Schedule HC-C, items 10.a and 10.b, and certain related schedules. BHCs lease various types of property to various types of customers, and the current addressee breakdown, in which only a limited number of BHCs report having leases to non-U.S. addressees, does not provide satisfactory risk-related information about this type of financing activity. When reporting information on their loans that are not secured by real estate in the loan schedule and related schedules, BHCs distinguish, for example, between consumer (retail) loans and commercial loans. As with retail and commercial loans, there are differences between the underwriting of, and repayment sources for, retail and commercial leases.

The Federal Reserve believes that the different risk characteristics of these two types of leases warrant replacing the existing addressee breakdown of leases with a retail versus commercial lease breakdown in the schedules for loans and leases (Schedule HC-C, items 10.a and 10.b), past due and nonaccrual assets (Schedule HC-N, items 8.a and 8.b), and charge-offs and recoveries (Schedule HI-B, Part I, items 8.a and 8.b). Retail (consumer) leases would be defined in a manner similar to consumer loans (that is, as leases to individuals for household, family, and other personal expenditures). Commercial leases would encompass all other lease financing receivables.

Information on Credit Derivatives

The volume of credit derivatives, as measured by their notional amount, has increased significantly at BHCs over the past several years. A limited number of BHCs, almost all of which have in excess of $1 billion in assets, currently participate in the credit derivatives market. To gain a better understanding of the nature and trends of the credit derivative activities that are concentrated in a small number of large BHCs, the Federal Reserve proposes to expand the information collected in several schedules.

First, in Schedule HC-L, item 7, where BHCs currently report the notional amounts of the credit derivatives on which they are the guarantor and on which they are the beneficiary, BHCs participating in this activity would be required to provide a breakdown of these notional amounts by type of credit derivative: credit default swaps, total return swaps, credit options, and other credit derivatives. BHCs would also report the maximum amounts they would pay and receive on credit derivatives on which they are the guarantor and on which they are the beneficiary, respectively.

Second, in Schedule HC-R, memorandum item 2, where BHCs currently present a maturity distribution of their derivative contracts that are subject to the risk-based capital requirements, credit derivatives would be added as a new category of derivatives with their remaining maturities reported separately for those that are investment grade and those that are subinvestment grade.

Third, in Schedule HI, memorandum item 9, BHCs that reported average trading assets of $2 million or more for any quarter of the preceding calendar year currently provide a four-way breakdown of trading revenue by type of risk exposure. When BHCs that must complete memorandum item 9 hold credit derivatives for trading purposes, they have to report the revenue from these derivatives in one of the four existing risk exposure categories, none of which is particularly suitable for reporting such revenue. Accordingly, the Federal Reserve proposes to add a new risk exposure category for credit derivatives. This information would address the current weakness in the reporting of trading revenue, but, more importantly, it would enable the Federal Reserve to begin to identify the extent to which credit derivatives held for trading purposes contribute to a BHC's trading revenue each period and over time.

Finally, the Federal Reserve proposes to replace memorandum item 10 to Schedule HI, Income Statement, with an item to collect the changes in fair value recognized in earnings on credit derivatives that are held for purposes other than trading (for example, to economically hedge credit exposures arising from nontrading assets, such as available-for-sale securities or loans held for investment,[7] or unused lines of credit). In this regard, the Federal Reserve reiterates that credit derivatives held for purposes other than trading should not be reported as trading assets or liabilities and the changes in fair value of such credit derivatives should not be reported as trading revenue. Consistent with the existing guidance in the Glossary entry for "Derivative contracts" in the FR Y-9C instructions, credit derivatives held for purposes other than trading with positive and negative fair values should be reported in Other assets and Other liabilities on the balance sheet (Schedule HC). Changes in fair value of derivatives held for purposes other than trading that are not designated as hedging instruments should be reported consistently as either Other noninterest income or Other noninterest expense in the income statement.

1-4 Family Residential Mortgage Banking Activities

Mortgage banking activities, particularly those involving closed-end 1-4 family residential mortgages, have become an increasingly important line of business for many BHCs. Mortgage banking revenues are a significant component of earnings for these institutions and have been critical to the recent record earnings achieved by the banking industry as a whole. The growth of the industry's mortgage banking activities also reflects the central role that securitization mechanisms now play in the mortgage market.

[7] Loans held for investment are loans that that the bank has the intent and ability to hold for the foreseeable future or until maturity or payoff.

However, these activities and the revenues they generate can be quite volatile over the business and interest rate cycle. Furthermore, a BHC's mortgage banking operations can raise significant management and supervisory concerns related to credit, liquidity, interest rate, and operational risk. Understanding the importance of mortgage banking activities to an institution's financial condition and risk profile requires information about the transactional flows associated with residential mortgages. In this regard, the Office of Thrift Supervision (OTS) has collected a large set of cash flow data on mortgage loan disbursements, purchases, and sales in the Thrift Financial Report (TFR) (Form 1313, OMB No. 1550-0023) for more than a decade.

After considering the OTS's reporting requirements as well as the types of information commonly disclosed by banking organizations with large mortgage banking operations, the Federal Reserve proposes to add a new Schedule HC-P that would contain a series of items that are focused on closed-end 1-4 family residential mortgage loans, with data reported separately for first liens and junior liens. The new items would cover loans originated, purchased, and sold during the quarter, loans held for sale at quarter-end, and the year-to-date noninterest income earned from closed-end 1-4 family residential mortgage banking activities. This income would consist of the portion of a BHC's Net servicing fees, Net securitization income, and Net gains (losses) on sales of loans and leases (Schedule HI, items 5.f, 5.g, and 5.i) attributable to closed-end 1-4 family residential mortgage loans.

The proposed new items would be reported by any BHC with $1 billion or more in total assets or by any BHC that has a bank subsidiary that is required to report this information by the bank subsidiary's primary regulator. For loans originated, purchased, and sold during the quarter, BHCs would report the principal amount of these loans. Originations would include those loans for which the origination and underwriting process was handled by the BHC or a consolidated subsidiary of the BHC, but would exclude those loans for which the origination and underwriting process was handled by another party, including a correspondent or mortgage broker, even if the loan was closed in the name of the BHC or a consolidated subsidiary of the BHC. Such loans would be treated as purchases as would acquisitions of loans closed in the name of another party. Sales of loans would include those transfers of loans that have been accounted for as sales in accordance with generally accepted accounting principles (that is, where the loans are no longer included in the BHC's consolidated total assets). Loans held for sale at quarter-end would be reported at the lower of cost or fair value, consistent with their presentation in the FR Y-9C balance sheet. The Federal Reserve will request comment on the reporting approach discussed in this paragraph.

Income from Annuity Sales

In the income statement (Schedule HI), BHCs currently report commissions and fees from sales of annuities (fixed, variable, and deferred) and related referral and management fees as a component of item 5.h.(2), Income from other insurance activities.[8] Because annuities are deemed to be financial investment products rather than insurance, the Federal Reserve proposes to revise the instructions for item 5.h.(2) and item 5.d, Investment banking, advisory, brokerage,

[8] However, commissions and fees from sales of annuities by a BHC's trust department (or a consolidated trust company subsidiary) that are executed in a fiduciary capacity are to be reported in Income from fiduciary activities in Schedule HI, item 5.a, and income from sales of annuities to BHC customers by the BHC's securities brokerage subsidiary are reported in Investment banking, advisory, brokerage, and underwriting fees and commissions in Schedule HI, item 5.d.

and underwriting fees and commissions, by moving the references to annuities in the former item to the latter item.

Investment Banking, Advisory, Brokerage, and Underwriting Income

As the caption for Schedule HI, item 5.d, Investment banking, advisory, brokerage, and underwriting fees and commissions, indicates, this income statement item commingles noninterest income from a variety of activities. In order to better understand the sources of BHCs' noninterest income, the Federal Reserve proposes to distinguish between banks' investment banking (dealer) activities and their sales (brokerage) activities by splitting item 5.d (after moving commissions and fees from annuity sales and related income into this income statement category from item 5.h.(2) as discussed in the preceding section) into three separate items. As revised, item 5.d would be subdivided into items for Fees and commissions from securities brokerage, Fees and commissions from annuity sales, and Investment banking, advisory, and underwriting fees and commissions. Securities brokerage income would include fees and commissions from sales of mutual funds and from purchases and sales of other securities and money market instruments for customers (including other financial institutions) where the BHC is acting as agent.

Certain Secured Borrowings

When BHCs raise funds from sources other than deposit liabilities, they may do so on a secured or unsecured basis. Securities sold under agreements to repurchase (Schedule HC, item 14.b) always represent secured borrowings, whereas Subordinated notes and debentures (Schedule HC, item 19.a) must be unsecured. However, amounts included in Federal funds purchased in domestic offices (Schedule HC, item 14.a) and Other borrowed money (Schedule HC-M, item 14) can be secured or unsecured, but this cannot be determined at present from the FR Y-9C. This uncertainty adversely affects the assessment of BHCs' liquidity positions. Moreover, as a BHC's condition deteriorates, it usually encounters increasing difficulty in rolling over existing unsecured debt or borrowing additional funds on an unsecured basis.

Thus, to better understand the structure of BHCs' nondeposit liabilities and the effect of these liabilities on liquidity, the Federal Reserve proposes to add two items to Schedule HC-M (items 23.a and 23.b) in which banks would report the secured portion of their Federal funds purchased and their Other borrowed money.

Life Insurance Assets

BHCs include their holdings of life insurance assets (that is, the cash surrender value reported to the BHC by the insurance carrier, less any applicable surrender charges not reflected by the carrier in this reported value) in Schedule HC-F, item 5, Other assets. If the carrying amount of a BHC's life insurance assets included in item 5 exceed 25 percent of its Other assets, the BHC must disclose this carrying amount in item 5.a.

In December 2004, the Office of the Controller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the OTS issued an Interagency Statement on the Purchase and Risk Management of Life Insurance to provide guidance to institutions to help ensure that their risk management processes for bank-owned life insurance (BOLI) are consistent with safe and sound banking practices. Given the risks associated with BOLI, the Interagency Statement advises institutions that it is generally not prudent for an institution to hold BOLI with an aggregate cash surrender value that exceeds 25 percent of the institution's capital as measured in accordance with its primary federal regulator's concentration guidelines. Although more than 40 percent of all BHCs report the amount of their life insurance assets in item 5.a under the current disclosure threshold of 25 percent of Other assets, this reporting mechanism does not ensure that the Federal Reserve is able to monitor whether all BHCs holding life insurance assets are approaching or have exceeded the concentration threshold of 25 percent of capital. As a consequence, the Federal Reserve proposes to revise Schedule HC-F, item 5.a, by removing the disclosure threshold of 25 percent of Other assets. The Federal Reserve notes that all savings associations are currently required to report the amount of their life insurance assets in the TFR on Schedule SC, lines SC615 and SC625.

Scope of Securitizations to be Included in Schedule HC-S

In column G of Schedule HC-S, Servicing, Securitization, and Asset Sale Activities, BHCs report information on securitizations and on asset sales with recourse or other seller-provided credit enhancements involving loans and leases other than those covered in columns A through F. Although the scope of Schedule HC-S was intended to cover all of a BHC's securitizations and credit-enhanced asset sales, as currently structured column G does not capture transactions involving assets other than loans and leases. As a result, securitization transactions involving such assets as securities, for example, have not been reported in Schedule HC-S. Therefore, the Federal Reserve proposes to revise the scope of column G to encompass All Other Loans, All Leases, and All Other Assets to ensure that they can identify and monitor the full range of BHCs' involvement in and credit exposure to securitizations and asset sales. The proposed change in the scope of column G is expected to affect only a nominal number of BHCs.

Instructional Clarification

BHCs report the outstanding principal balance of assets serviced for others in Schedule HC-S, memorandum item 2. In memoranda items 2.a and 2.b, the amounts of 1-4 family residential mortgages serviced with recourse and without recourse, respectively, are reported. Memorandum item 2.c covers all other financial assets serviced for others, but BHCs are required to report the amount of such servicing only if the servicing volume is more than $10 million. The instructions for memoranda items 2.a and 2.b do not explicitly define 1-4 family residential mortgages. However, the caption for column A of the body of Schedule HC-S is 1-4 family residential loans, which the instructions for column A describe as closed-end loans secured by first or junior liens on 1-4 family residential properties as defined for Schedule HC-C, items 1.c.(2)(a) and (b).

Some institutions have asked whether memoranda items 2.a and 2.b should include servicing of home equity lines of credit because such lines are also secured by 1-4 family residential properties. Information on securtizations and asset sales involving home equity lines is reported in column B of the body of Schedule HC-S. To resolve the questions about the scope of memoranda items 2.a and 2.b, the Federal Reserve proposes to clarify the instructions by stating that these two items should include servicing of closed-end loans secured by first or junior liens on 1-4 family residential properties only. Servicing of home equity lines would be included in memorandum item 2.c.

FR Y-9LP

The FR Y-9LP includes standardized financial statements filed quarterly on a parent company only basis from each BHC that files the FR Y-9C. In addition, for tiered BHCs, a separate FR Y-9LP must be filed for each lower tier BHC.

Proposed Revisions

The Federal Reserve proposes to make the following revisions to the FR Y-9LP effective as of March 31, 2006.

Filing Criteria

The Federal Reserve proposes to increase the asset-size threshold of the FR Y-9LP from $150 million to $500 million. The Federal Reserve further proposes to modify the other criteria and include additional criteria that would be used in determining whether a BHC is subject to FR Y-9LP filing requirements.

Specifically, the Federal Reserve proposes to require BHCs with consolidated assets of less than $500 million to comply with the Federal Reserve's capital guidelines, and to continue to comply with the FR Y-9C and FR Y-9LP reporting requirements, if the holding company (1) is engaged in significant nonbanking activities either directly or through a nonbank subsidiary; (2) conducts significant off-balance-sheet activities, including securitizations or managing or administering assets for third party, either directly or through a nonbank subsidiary; or (3) has a material amount debt or equity securities (other than trust preferred securities) outstanding that are registered with the SEC. While the incidence of BHCs with consolidated assets of less than $500 million meeting any of these criteria is expected to be infrequent, any such BHCs would be notified and given a reasonable timetable for meeting the consolidated capital and reporting requirements.

The proposed changes are consistent with the proposed revisions to filing criteria to the FR Y-9C, as fully described above. These filing requirements would apply to all BHCs in multi-tiered organizations.

Attestation

The Federal Reserve proposes to revise the current attestation of one director of the BHC that he or she has reviewed the data filed and has transmitted a copy of the data to the Board of Directors for their information. Given the importance placed upon the quality of the information reported, the Federal Reserve believes that the chief executive officer (or person performing similar functions) and chief financial officer (or person performing similar functions) are the most appropriate officers within a BHC to sign a declaration concerning the preparation of the report. The Federal Reserve recognizes that at some BHCs the same individual may perform the functions of both chief executive officer and chief financial officer. The note on the cover page would be replaced with the following text:

> "We, the undersigned officers of this bank holding company, are responsible for establishing and maintaining adequate internal controls over financial reporting, including controls over regulatory reports. We attest that the Parent Company Only Financial Statements for Large Bank Holding Companies (including the supporting schedules) for this report date have been prepared in accordance with the instructions issued by the Federal Reserve and to the best of our knowledge and belief are true and correct."

This statement would be followed with the signatures and printed names of the chief executive officer (or person performing similar functions) and chief financial officer (or person performing similar functions) of the BHC and the date of these signatures.

Instructions

Instructions would be clarified in an attempt to achieve greater consistency in reporting by respondents.

FR Y-9SP

The FR Y-9SP is a parent company only financial statement filed by smaller BHCs. Respondents include one-bank holding companies with total consolidated assets of less than $150 million and multibank holding companies with total consolidated assets of less than $150 million that meet certain other criteria. This form is a simplified or abbreviated version of the more extensive parent company only financial statement for large BHCs (FR Y-9LP). This report is designed to obtain basic balance sheet and income information for the parent company, information on intangible assets, and information on intercompany transactions.

Proposed Revisions

The Federal Reserve proposes to make the following changes to the FR Y-9SP effective as of June 30, 2006.

Filing Criteria

The Federal Reserve proposes to increase the asset-size threshold of the FR Y-9SP from companies with total consolidated assets of less than $150 million to companies with total consolidated assets of less than $500 million. The Federal Reserve further proposes to modify the other criteria and include additional criteria that would be used in determining whether a BHC is subject to FR Y-9SP filing requirements.

Specifically, the Federal Reserve proposes to require BHCs with consolidated assets of less than $500 million to comply with the Federal Reserve's capital guidelines, and to continue to comply with the FR Y-9C and FR Y-9LP reporting requirements, if the holding company (1) is engaged in significant nonbanking activities either directly or through a nonbank subsidiary; (2) conducts significant off-balance-sheet activities, including securitizations or managing or administering assets for third party, either directly or through a nonbank subsidiary; or (3) has a material amount debt or equity securities (other than trust preferred securities) outstanding that are registered with the SEC.

Although the incidence of BHCs with consolidated assets of less than $500 million meeting any of these criteria is not expected to be frequent, information is not currently available to identify BHCs meeting the second and third criteria. Therefore the Federal Reserve proposes to collect two new items on Schedule SC-M, Memoranda, to identify total off-balance-sheet activities conducted either directly or through a nonbank subsidiary and to identify total debt and equity securities (other than trust preferred securities) outstanding that are registered with the SEC. BHCs meeting any of the criteria would be notified and given a reasonable timetable for meeting the consolidated capital and reporting requirements.

The proposed changes are consistent with the proposed revisions to filing criteria to the FR Y-9C, as fully described above.

Attestation

The Federal Reserve proposes to revise the current attestation of one director of the BHC that he or she has reviewed the data filed and has transmitted a copy of the data to the Board of Directors for their information. Given the importance placed upon the quality of the information reported, the Federal Reserve believes that the chief executive officer (or the person performing similar functions) and chief financial officer (or the person performing similar functions) are the most appropriate officers within a BHC to sign a declaration concerning the preparation of the report. The Federal Reserve recognizes that at some BHCs the same individual may perform the functions of both chief executive officer and chief financial officer. The note on the cover page would be replaced with the following text:

> "We, the undersigned officers of this bank holding company, are responsible for establishing and maintaining adequate internal controls over financial reporting, including controls over regulatory reports. We attest that the Parent Company Only Financial Statements for Small Bank Holding Companies (including the supporting schedules) for this report date have been prepared in accordance with the instructions issued by the Federal Reserve and to the best of our knowledge and belief are true and correct."

This statement would be followed with the signatures and printed names of the chief executive officer (or person performing similar functions) and chief financial officer (or person performing similar functions) of the BHC and the date of these signatures.

Instructions

In addition to modifying instructions to incorporate the proposed reporting changes, instructions would be revised and clarified in an attempt to achieve greater consistency in reporting by respondents.

FR Y-9ES

The FR Y-9ES collects financial information from ESOPs that are also BHCs on their benefit plan activities. It consists of four schedules: Statement of Changes in Net Assets Available for Benefits, Statement of Net Assets Available for Benefits, Memoranda, and Notes to the Financial Statements. No revisions are proposed to the FR Y-9ES.

Frequency

There are no changes proposed to the reporting frequency of the FR Y-9 family of reports. The current reporting frequencies provide adequate timely data to meet the analytical and supervisory needs of the Federal Reserve.

Time Schedule for Information Collection

The FR Y-9C and FR Y-9LP are filed quarterly as of the end of March, June, September, and December. The following table lists the FR Y-9C and FR Y-9LP filing deadlines to the appropriate Federal Reserve Bank through June 2006.

Report Date	Filing Schedule for **Top-tier FR Y-9C reporters** *after report date*	Filing Schedule for **All Other FR Y-9C and all FR Y-9LP reporters** *after report date*
September 30, 2005	40 calendar days	45 calendar days
December 31, 2005	45 calendar days	45 calendar days
March 31, 2006	40 calendar days	45 calendar days
June 30, 2006	30 calendar days plus 5 business days	45 calendar days

The filing deadline of thirty calendar days plus 5 business days after the as-of date for top-tier FR Y-9C is scheduled to begin with the June 30, 2006, as-of date for all quarterly reports other than the December 31, report date[9]. For the December 31 report date, top-tier BHCs will continue to submit the FR Y-9C within forty-five days after the as-of date. FR Y-9C reports for lower-tier BHCs and all FR Y-9LP reports must be submitted within 45 calendar days after the as-of date. The FR Y-9SP report must be submitted within forty-five calendar days after the as-of date. The FR Y-9SP is reported semiannually as of the end of June and December. The annual FR Y-9ES is collected as of December 31 and submitted to the Federal Reserve Banks by July 31, unless an extension is granted for filing by October 15.

The data from the FR Y-9 family of reports that are not given confidential treatment are available to the public on the FFIEC website (www.ffiec.gov/nic) and through the National Technical Information Service.

[9] This filing deadline was established in part to be consistent with the 35-day filing deadline established by the SEC for the 10Q report, currently scheduled to go into effect as of June 30, 2006. However, the SEC is expected to soon propose maintaining the 40 day filing deadline for the 10Q report for June 30, 2006, and all subsequent quarters. If the SEC implements this change, then the Federal Reserve would also maintain the 40 day filing deadline for top-tier FR Y-9C reports, and would not implement the 30 calendar days plus 5 business days filing deadline with the June 30, 2006, reporting date.

Legal Status

The Board's Legal Division has determined that the FR Y-9 family of reports are authorized by Section 5(c) of the Bank Holding Company Act [12 U.S.C. 1844(c)]. Overall, the Board does not consider the financial data in these reports to be confidential. However, a respondent may request confidential treatment pursuant to section (b)(4) of the Freedom of Information Act [5 U.S.C. 552(b)(4)].

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Respondent Burden

The current estimated annual reporting burden for the FR Y-9 family of reports is 405,373 hours and would decrease to 183,541 hours as shown in the following table. The average estimated hours per response for FR Y-9C filers would increase from 35.55 hours to 37.95 hours resulting from a net increase of 2.4 hours for proposed new items and deletions. The average estimated hours per response for FR Y-9SP filers would increase from 4.85 hours to 5.10 hours as a result of proposed new items. The change in reporting thresholds would result in a shift of 1,534 FR Y-9C respondents and 1,487 FR Y-9LP respondents to the FR Y-9SP panel. As a result of both of these changes, on net the estimated annual burden would decrease by 221,832 hours to 183,541 hours. The revised total burden for the FR Y-9 family of reports would represent less than 4 percent of total Federal Reserve System annual burden.

	Number of Respondents	*Annual Frequency*	*Estimated Average Hours per Response*	*Estimated Annual Burden Hours*
Current				
FR Y-9C	2,300	4	35.55	327,060
FR Y-9LP	2,468	4	4.75	46,892
FR Y-9SP	3,111	2	4.85	30,177
FR Y-9ES	87	1	0.50	44
FR Y-9CS	600	4	0.50	1,200
Total				405,373
Proposed				
FR Y-9C	766	4	37.95	116,279
FR Y-9LP	981	4	4.75	18,639
FR Y-9SP	4,645	2	5.10	47,379
FR Y-9ES	87	1	0.50	44
FR Y-9CS	600	4	0.50	1,200
Total				183,541
Change				-221,832

Based on an average hourly cost of $30, the current annual cost to the public is estimated to be $12,161,190, and the annual cost to the public for filing the proposed reports is estimated to be $5,506,230.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System for collecting and processing the FR Y-9 is estimated to be $1,673,029 annually. The one-time costs to implement the revised reports are estimated to be $92,964.

Attachment